**Unit 1.3 Government Intervention**

*Indirect Taxes*

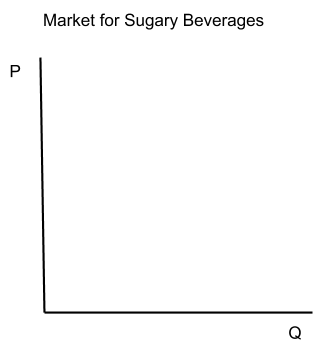
1. Define *indirect tax* and distinguish between two types of indirect taxes a government may place on a good or service.

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1. Explain the effect that a specific, per unit tax will have on the market for a particular good.

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1. In the graph below, illustrate the effect of a per unit tax on sugary beverages, assuming that demand for sugary beverages is relatively inelastic (e.g. the demand curve is relatively steep).



1. Show and explain the effect of the tax on:
   1. Consumers of sugary beverages:

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* 1. Producers of sugary beverages:

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* 1. Total welfare in the market for sugary beverages:

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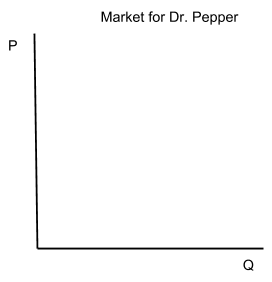
* 1. The government:

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1. Based on the fact that demand for sugary beverages is relatively inelastic, who is likely to bear the largest burden of an indirect tax? Explain.

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1. Now assume that instead of taxing sugary beverages, the government decides to tax one brand of sugary beverage, *Dr. Pepper.* In a new diagram, illustrate the effect of a per unit tax of the same amount as that applied to sugary beverages placed on on the market for *Dr. Pepper*. (Consider the elasticity of demand for *Dr. Pepper* relative to that for all sugary beverages when drawing the demand curve)



1. Show and explain the effect of the tax on *Dr. Pepper* on:
   1. Consumers of *Dr. Pepper*:

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* 1. The producers of *Dr. Pepper*:

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* 1. Total welfare in the market for *Dr. Pepper*:

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* 1. The government:

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1. Discuss the impact of a particular per unit tax placed on *Dr. Pepper,* compared to one of the same amount placed on all sugary beverages on:
   1. Efficiency in the markets for the two goods:

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* 1. The producers of the two goods:

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* 1. The consumers of the two goods:

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* 1. Government tax revenues:

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* 1. Employment of workers in the two industries:

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